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Public Policy Brief

Making Unemployment Insurance Work

Reforming Unemployment Insurance:
Toward Greater Employment

Oren M. Levin-Waldman

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Summary

The main goal of the present unemployment insurance system is to maintain a basic income for a limited period of time for laid-off workers who are seeking reemployment. The system assumes that layoffs will be temporary and most workers will be called back to their jobs. However, deepening recessions, technological change, corporate downsizings, and plant and company closures have resulted in greater permanent displacement of workers. The unemployment insurance system is ill equipped to assist long-term unemployed workers in the postindustrial economy. In this *Public Policy Brief*, Oren M. Levin-Waldman, resident scholar of the Levy Institute, proposes that the unemployment insurance system should be improved to reduce the incidence of layoffs and to help the long-term unemployed become marketable again.

Both the average duration of unemployment and the long-term unemployed as a share of the total unemployed population have increased over time. Using the Current Population Survey's 1993 annual demographic file, Levin-Waldman finds that 20 percent of the unemployed population were unemployed for 27 weeks or more (the long-term unemployed). During the postwar period the long-term unemployed as a percentage of the total unemployed peaked during recessions, but rarely returned to pre-recession levels, indicating that the current problem is not only cyclical, but structural and growing.

According to the most recent survey of displaced workers by the Bureau of Labor Statistics, about half of full-time workers who lost their job between 1991 and 1993 were reemployed in a full-time job by February 1994 at earnings equal to or greater than their earnings at their last job. However, workers in the transportation, public utilities, construction, and manufacturing sectors were more likely to find a new job at substantially lower wages. Their new compensation was likely to be no more than 80 percent of the compensation at their previous job. Others found only part-time employment, remained unemployed, or dropped out of the labor force altogether.

Levin-Waldman notes that if a considerable proportion of displaced workers work at reduced wages or as contingent workers, the system is not helping them find the appropriate match. The system could do more to help unemployed workers find reemployment that matches skills they have with skills required by employers or to help them obtain the skills

necessary for a type of employment that will enable them to maintain the standard of living they had during their prior employment.

Unemployment insurance benefits are financed by a payroll tax paid by employers. Levin-Waldman recommends an experience-rated premium that better reflects a firm's history of layoffs or the layoff patterns within its industry.

Levin-Waldman argues that what is needed is a two-tiered system that distinguishes between short-term and long-term unemployment. The system should continue to function as an insurance program for 26 weeks to allow workers to search for employment that represents the best match with their experience, skills, and credentials. The first tier of the improved system would include reforms, such as altering the employer taxes that finance UI and instituting work-sharing arrangements, to reduce short-term unemployment by reducing the incidence of layoffs. The objective is to maintain employment levels during periods of economic decline.

The second tier would include programs (such as employer-based job training) to help the long-term unemployed develop skills that would make them more marketable. Levin-Waldman's reformed system would make unemployment insurance benefits beyond 26 weeks contingent upon the worker's enrolling in a training program. The system would employ the Worker Profiling and Reemployment Service System currently used to identify unemployed workers early in their unemployment who are likely to become long-term unemployed. On the basis of their profiles, workers would be directed to services such as reemployment assessment and workshops on writing resumes and interviewing. Workers who are referred to these services would be required to participate to receive any unemployment insurance benefits.

Levin-Waldman concludes that the goal of reform is not "merely to achieve greater efficiency in facilitating reemployment, but to enhance a core value of American Society: work."

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Preface

Expenditures for unemployment insurance (UI) total approximately $25 billion annually, providing partial replacement of income to 2 million unemployed workers in an average week. The design and structural shortcomings of the UI system have been the subject of debate. As described by Resident Scholar Oren M. Levin-Waldman, UI was initially designed to be a temporary source of income for workers laid off because of cylical or seasonal business changes. UI was expected to tide workers over during their idle period, and they were expected to return to their previous job when business conditions improved. However, in the transition from a production-based economy to an information-based economy, old jobs are often lost forever, thereby reducing the efficacy of the current UI system and rendering its initial design obsolete.

Recent initiatives to reform the UI system have been prompted by two contrasting developments. First, a number of states have had above-median economic growth coupled with relatively low levels of unemployment over the past few years, swelling their UI trust fund reserves. Some of these states, in their desire to foster a pro-business climate and attract new firms, have indicated a willingness to return the excess UI funds to employers in the form of refunds.

The second development, which is the focus of this *Policy Brief*, is the rising number, independent of aggregate levels of unemployment, of long-term unemployed. Many workers, as they move from job to job, are confronting the daunting task of "reengineering" or reinventing their human capital endowments in an effort to meet the demands of

the marketplace. Concurrently, a growing sense of economic insecurity among American workers, fueled by accelerating trends in technological change, globalization, and corporate downsizing, has led some policymakers to embrace initiatives aimed at promoting job stability.

Although the academic literature on unemployment insurance typically focuses on its effects on workers, it also affects firms. This *Policy Brief* is sensitive to the effects on both of these constituencies. Levin-Waldman recognizes the need for a more perfect experience-rated payroll tax on firms to finance the unemployment insurance system. He offers a two-tiered approach for workers. First, he aims to reduce the incidence of short-term layoffs by recommending work-sharing agreements; second, he attempts to make unemployment insurance more effective in the rapidly changing economy by prescribing mandatory training for the rising number of long-term unemployed workers.

There are no quick-fix solutions or panaceas to ease the range of social costs associated with the scourge of unemployment. This *Policy Brief* makes a significant contribution to the policy discourse by promoting an important ethos in our society: work.

Dimitri B. Papadimitriou
Executive Director

July 1996

Reforming Unemployment Insurance: Toward Greater Employment

The first line of defense for workers laid off from their jobs has been the unemployment insurance (UI) system. The UI system was originally designed to partially replace the earnings of laid-off workers. Unemployed workers usually qualify to receive benefits for a maximum of 26 weeks, if their unemployment is no fault of their own and they can show that they have been looking for reemployment. The UI system's design was based on the assumption that layoffs would be temporary and that in most cases workers would be recalled by their employers or would find comparable jobs. Over the years deepening recessions, downsizing, plant closures, and the changing structure of the labor market have resulted in longer spells of unemployment, a growing number of people who apply for extended benefits, and more permanent displacement. A system designed to provide temporary assistance to tide workers over until they are recalled is ill equipped to assist workers in their transition to reemployment. This *Policy Brief* argues that the UI system must be redesigned so that it can meet the needs of workers in an economy in transition—from industrial to postindustrial and from production to information.

At a minimum the system needs to be tightened in such a way that it reduces the incidence of layoffs. It could be redesigned to assist displaced workers in obtaining reemployment early in their unemployment and to offer greater assistance to the growing population of the long-term unemployed—those who have been permanently displaced from their jobs because of plant or company closure, corporate downsizing, or changing technologies.

Within the last decade the long-term unemployed population (workers unemployed for more than 26 weeks) has grown more rapidly than the short-term unemployed population. These people are part of a growing class of chronically unemployed for whom a policy response is essential. The logic of UI rests on the premise that individuals need to be afforded the opportunity to search for new work and that, given that opportunity, they will find a job that matches their skills and experience. The rising population of long-term unemployed casts doubt on whether an appropriate match can be found within the 26-week period. A policy response of simply extending benefits is still based on the assumptions made in the past about the short-term nature of unemployment and the ease with which job matches can be made. I believe that something other than merely extending benefits needs to be done for the long-term unemployed.

Is Unemployment Insurance a Labor Disincentive?

The unemployment insurance system is characterized most notably by its income maintenance function. Each state establishes a trust fund financed through premiums levied against employers. It offers laid-off workers critical income protection during temporary spells of joblessness. By protecting the incomes of jobless workers, UI sustains ordinary spending habits and also has the effect of giving the economy a needed boost during times of recession (Burtless 1991). It is distinguished from public relief in that it functions as an insurance system. This distinction enables recipients to maintain their self-respect as the system prevents them from sliding into destitution.

The system, by design, is supposed to contribute to reemployment or at least to not enable workers to choose to abstain from work. By limiting the amount and duraton of benefits and by requiring recipients to look for a job and be available for work, it reduces the disincentive for work (Blaustein et al. 1993).

Most state UI programs provide eligible unemployed workers with a monetary payment to replace a percentage of their previous wages.

One justification for the payment of such benefits is that it allows individuals to focus on searching for a new job (Advisory Council on Unemployment Compensation 1995). However, much of the literature since the 1970s has contended that the existing UI system is a source of moral hazard[1]—that it provides disincentives to return to work and thus increases the number of people unemployed and the duration of joblessness.

Feldstein (1978) has asserted that the current system of UI encourages temporary layoffs (temporary layoffs account for 50 percent of all unemployment spells), increases the duration of unemployment spells, and may also induce more brief spells of unemployment. He argues that employers are more willing to lay off workers when they are confident that workers will return when recalled. Similarly, employees are more willing to be laid off when they are confident that they will be recalled. Katz and Meyer (1990) found that employer recall policies are primary determinants of the duration of unemployment spells of individuals with recall prospects and that the probability of leaving unemployment and finding new jobs increases greatly around the time that UI benefits lapse. Furthermore, Meyer (1990) found that higher UI benefits reduce the probability of leaving unemployment, and the probability of reemployment rises dramatically just before benefits lapse. Solon (1984) suggests that the denial of benefits to job quitters may reduce the frequency of quitting because it could increase the expected cost of leaving employment. Solon argues that if the denial of benefits does reduce quitting, it would only underscore the voluntary aspect of quitters' unemployment and strengthen the argument that such unemployment should not be compensated.

Feldstein and Poterba (1984) explain the disincentive to search for work or to leave unemployment in terms of workers' reservation wage—the lowest wage that workers will be willing to accept. An employee who loses a job may have difficulty finding a new job that pays a comparable wage. UI benefits increase workers' reservation wage: even modest benefits allow the unemployed to refuse to take a job and to become or remain long-term unemployed. Among the unemployed looking for a job, a lower cost of unemployment allows the setting of a higher reservation wage.

An alternative explanation, offered by Burtless (1990), is that those who have been closed out of a job may be in a state of denial. During the early days of their unemployment, they do not really believe that they are not going to return to their job. As time passes, they become more fully aware of this reality. Burtless suggests that "neither theory nor available empirical evidence permits us to predict unequivocally the net effect of unemployment insurance on labor supply." By providing insurance to workers, UI offers something of value to people who become employed, and it may thus increase the attractiveness of market work. By supplementing the incomes of workers who become unemployed, it may slow the process of reemployment. But without better empirical evidence than is currently available, it is impossible to predict which of these two basic effects will predominate. UI may increase the amount of economically productive job search. It may raise the average productivity of workers by improving the match between jobs and workers. In situations where there are two job vacancies and two unemployed workers, it can be economically productive to subsidize the workers so that they sort themselves into the jobs that maximize their joint output and earnings (Burtless 1990).

Assuming that there is a reservation wage for each individual, what factors other than previous wage may contribute to it? There may be other considerations, such as education and tenure in the labor force. In the debate about whether UI is a disincentive to work, it is important to recognize that unemployment does more than disrupt people's income. That kind of disruption can be eased through UI benefits. But unemployment also disrupts the structure and fabric of workers' lives, and UI benefits cannot compensate for that disruption no matter how generous the provision (Pappas 1989, Buss and Redburn 1983). Rather than emphasize the UI system's distortive impact on the behavior of the unemployed, policymakers should reconsider the design of the system in term of the current realities of the labor market. A focus on disincentives to work, associated frequently with reservation wages, diverts attention from the question of whether there is a skills mismatch between workers who are laid off and jobs that are available. To find the appropriate match may take some time, and UI may offer some of the necessary time.

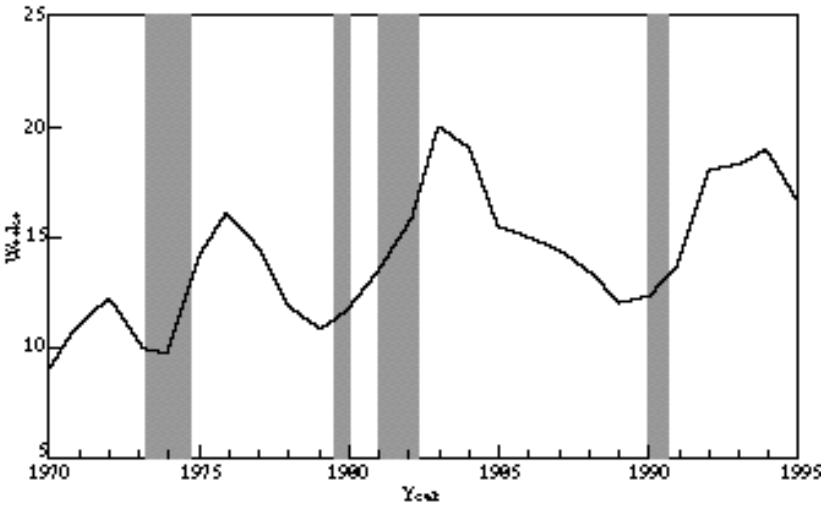
Characteristics of the Short-Term and Long-Term Unemployed

The unemployed population is by no means a homogeneous group. A consistent profile of the general population of unemployed individuals can be constructed based on the Current Population Survey's (CPS) 1993 annual demographic file. The CPS micro data contain three records: personal, family, and household. The personal record sample consists of roughly 157,000 individuals, of whom 5,827 are unemployed. The unemployed individuals are divided into two groups according to duration of unemployment. Short-term unemployment is defined as 1 to 26 weeks and long-term unemployment as 27 to 100 weeks. The short-term unemployed sample population was 4,646 (79.7 percent) and the long-term 1,181 (20.3 percent). Among the long-term unemployed, 33.0 percent were unemployed for more than 52 weeks, 37.7 percent for 27 to 40 weeks, 28.2 percent for 41 to 52 weeks, and 34.1 percent for 53 to 100 weeks. Among the short-term unemployed, 41.7 percent were unemployed for 1 to 5 weeks, 36.5 percent for 6 to 14 weeks, and 21.8 percent for 15 to 26 weeks.

The data suggest that most unemployed individuals either find reemployment or drop out of the labor force before 26 weeks, the point at which benefits cease in most states. Nonetheless, over the last 25 years the average weekly duration of unemployment has increased (see Figure 1).

Long-term unemployment relative to total unemployment has increased on average 55 percent from the 1949 to 1974 period to the 1975 to 1995 period (see Figure 2). The overall trend since 1969 has been a rise in the percentage of long-term unemployed. Peaks occurred just after recessions and troughs just prior to or early in recessions, but the average percentage rose during each economic recovery period. Each peak was higher than the one before until the peak following the 1990–91 recession. That peak was not as severe as the peak following the back-to-back recessions in late 1979 and 1981–82, between which there was no trough. However, recovery (that is, a drop in the percentage of long-term unemployed relative to total unemployment) was slower after the recent peak than it had

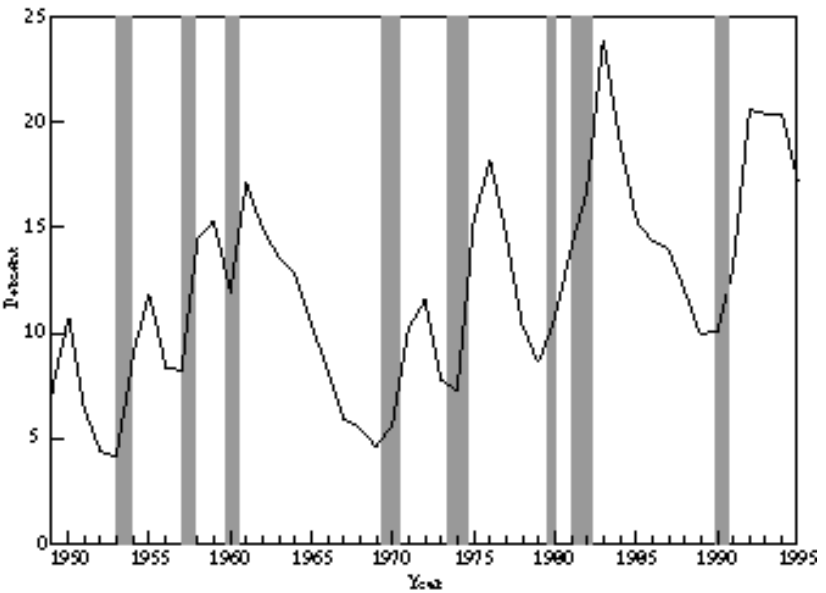
Figure 1 Average Duration of Unemployment



Note: Shaded areas represent recessions.

Source: Council of Economic Advisers, *Economic Report of the President* (1996).

Figure 2 Long-Term Unemployed as a Percentage of Total Unemployed



Note: Shaded areas represent recessions. See Table A1 in the appendix for statistics.

Source: Council of Economic Advisers, *Economic Report of the President* (1996).

Table 1 Long-Term Unemployed Relative to Total Unemployed by Occupation, 1995

Occupation	Percent
Managerial and professional specialty	20.6
Technical, sales, and administrative support	16.6
Services	16.5
Precision, production, craft, and repair	18.1
Operators, fabricators, and laborers	17.1
Farming, forestry, and fisheries	13.2

Source: Author's calculations based on data in U.S. Department of Labor, Bureau of Labor Statistics, *Employment and Earnings*, January 1996.

been before. During the economic expansion period of the 1980s the long-term unemployment percentage declined from a high of 23.9 percent in 1983 to 9.9 percent in 1989; during the economic expansion of the 1990s the percentage fell from 20.6 percent in 1992 to 17.3 percent in 1995.

Duration of unemployment varies by occupation (see Table 1). Of the unemployed workers in 1995 in the managerial and professional specialty occupations, 20.6 percent were long-term unemployed; 17.1 percent of all unemployed operators, fabricators, and laborers were long-term unemployed. The higher percentage of long-term unemployed in the managerial and professional specialty occupations can in part be attributed to recent trends in corporate downsizing.

In constructing a profile of the unemployed population, it is useful to know the age, educational level, marital status, gender, race, industry, occupation, unemployment insurance status, and reason for unemployment. Such data show that there are some significant differences between the short- and long-term unemployed populations.

The long-term unemployed, on average, tend to be older than the short-term unemployed (see Table 2). More than half of the short-term unemployed are in the 18 to 34 age cohort, and over half of the long-term unemployed population fall into the cohorts that include ages 25 to 44. More men than women are likely to be unemployed both long term and short term, but the gap between men and women is wider among the long-term unemployed. Short-term and long-term

Table 2 Demographics of the Short-Term and Long-Term Unemployed, 1993

	Short-Term Unemployed (percent)	Long-Term Unemployed (percent)
Age		
0–17	9.7	2.3
18–24	25.0	14.1
25–34	27.7	24.8
35–44	19.9	27.2
45–54	11.3	19.8
55– 64	5.4	10.2
65–72	0.8	1.3
73 and over	0.3	0.4
Gender		
Male	58.9	65.3
Female	41.1	34.7
Race		
White	81.2	76.9
Black	14.3	18.0
American Indian, Aleut Eskimo	1.9	1.2
Asian or Pacific Islander	2.0	3.0
Other	0.6	0.8
Marital Status		
Married	39.6	46.5
Never married	45.8	34.3
Divorced or separated	13.2	17.5
Widowed	1.5	1.8
Education Level		
Less than twelfth grade	33.6	26.3
High school diploma	35.3	38.1
Some college	17.1	16.3
College degree	11.8	15.2
Graduate degree	2.3	4.8

Source: U.S. Department of Commerce, Bureau of the Census, *Current Population Survey: Annual Demographic File, 1993* (1993).

unemployment is higher among whites than among other racial and ethnic groups. However, of the whites who are unemployed, more are short-term unemployed, whereas of the unemployed blacks, more are long-term unemployed.

Among the long-term unemployed, 46.5 percent are married, 34.3 percent have never been married, 17.5 percent are divorced or separated, and 1.8 percent are widowed; among the short-term unemployed, 39.6 percent are married, 45.8 percent have never been married, 13.2 percent are divorced or separated, and 1.5 percent are widowed.

One explanation frequently given for the increasing duration of unemployment is that there is a mismatch between the skills necessary for existing jobs and the skills of the unemployed. If this is so and if the mismatch is assumed to be inadequate skills for existing jobs, to the extent that skills are measured by educational attainment, the overall level of education would be expected to be lower among the long-term unemployed than among the short-term unemployed. The CPS data suggest the opposite. Among the long-term unemployed, the percentage of those who have received a college or higher degree was higher than among the short-term unemployed.

The older age and the higher educational level of the long-term unemployed raise some questions. One might suspect that age discrimination affects the willingness of employers to hire older individuals, but how can the higher educational level of the long-term unemployed be accounted for? The statistics on age and education might lend support to the thesis of reservation wages as a factor in duration of unemployment. One would expect that experience in the labor force and high educational attainment would contribute to higher reservation wages. Those with higher levels of education are generally able to command higher wages. Those who are older with more experience in the labor market have also become accustomed to higher wage levels. These factors alone, however, may not be the only source of higher reservation wages (to be discussed further).

General educational level and skill level are not necessarily the same. Howell and Wolff (1991), for instance, have observed that correlations between job-based skill and educational attainment are substantially lower for nonsupervisory occupations (which they list as clerical, blue-collar, and service occupations) than for supervisory positions. Educational attainment appears to be a better measure of job-skill requirements for professional, technical, and managerial occupations.

Occupation and industry have an impact on duration of unemployment (see Table 3). Over the last three decades there have been significant declines in manufacturing occupations and industries (see Table A3 in the appendix), precisely those that are relatively low-skilled. Occupations and industries that have gained require greater skill levels.

The higher percentages of short-term and long-term unemployed in blue-collar manufacturing industries and occupations merely reflect the trends: the rise in manufacturing unemployment has been accompanied by blue-collar manufacturing's increasing share of both

Table 3 Long-Term and Short-Term Unemployed by Industry and Occupation, 1993

	Short-Term Unemployed (percent)	Long-Term Unemployed (percent)
Industry		
Blue-collar service	4.8	5.5
Blue-collar manufacturing	29.4	35.8
Sales and trade	21.7	20.4
Professional specialty	8.6	8.6
Service	11.8	13.6
Finance, insurance, and real estate	3.1	2.9
Public administration	1.7	3.4
Agriculture	3.7	1.0
Not in universe	15.2	8.8
	100.0	100.0
Occupation		
Blue-collar service	33.2	28.7
Blue-collar manufacturing	23.1	25.1
Technical, sales, administrative support, including clerical	19.7	23.2
Manager and professional specialty	8.9	14.2
Armed forces	0.5	1.0
Not in universe	14.7	7.8
	100.0	100.0

Notes: Industry and occupation categories were aggregated by the author. See Table A2 in the appendix for a description of the aggregation process. Total industry and occupation percentages may not equal 100 because of rounding.

Source: U.S. Department of Commerce, Bureau of the Census, *Current Population Survey: Annual Demographic File, 1993* (1993).

total long-term and total short-term unemployment. Given the decline in the nation's industrial base, one would expect more long-term unemployment in manufacturing industries and occupations. Although managerial, professional, and specialty occupations' share of short- and long-term unemployed is much less than blue-collar manufacturing occupations' share, managerial occupations' share of long-term unemployed is 5.3 percentage points higher than its share of short-term unemployed. Trends in corporate restructuring in recent years may partly account for this. It may also be that people in these occupations have higher reservation wages and therefore take longer to find or accept reemployment.

There are significant differences in reason for unemployment between short-term and long-term unemployed (see Table 4). Unemployment is more likely to be involuntary among the long-term unemployed; 67.5 percent of the long-term unemployed lose their jobs involuntarily, compared to 52.8 percent of the short-term unemployed. This difference is critical in view of the fact that the principal criterion for UI eligibility is that unemployment be involuntary. The other significant difference between the two groups is the number of people who are considered "other job losers." Job losers who have become unemployed for reasons other than business cycle fluctuations are more likely to become permanently displaced and have no prospect of being recalled to their old jobs. These statistics tend to correspond to overall trends that involuntary job loss has become more permanent.

Table 4 Short-Term and Long-Term Unemployed by Reason for Unemployment, 1993

Reason for Unemployment	Short-Term Unemployed (percent)	Long-Term Unemployed (percent)
Job losers on layoff	16.3	6.8
Other job losers	36.5	60.7
Job leavers	10.6	8.5
Reentrants	22.0	16.2
New entrants	9.7	5.9
Not in universe	4.9	1.9

Source: U.S. Department of Commerce, Bureau of the Census, *Current Population Survey: Annual Demographic File, 1993* (1993).

Every few years the Bureau of Labor Statistics (BLS) conducts a survey of workers it categorizes as displaced. The BLS defines displaced workers as "persons 20 years and older who were released from jobs because their plant or company closed or moved, there was insufficient work for them to do, or their position or shift was abolished" (Bureau of Labor Statistics 1994). Others define displacement in terms of prospects for reemployment. Layoff holds out the prospect that workers will be recalled; displacement does not. By this definition, displacement due to plant or firm closure means that the job will never return (Martin 1983).

According to the BLS survey of worker displacement in the early 1990s, about half of those who lost their full-time job during the period from 1991 to 1993 were reemployed in a full-time job by February 1994 and had earnings equal to or greater than those earned at their lost job. Although 53 percent of those reemployed full-time reported earning the same or more than they had at their lost job, workers in transportation, public utilities, construction, and manufacturing were more likely to find new jobs at substantially lower wage rates. Their new compensation was likely to be 80 percent or less of their old compensation. Many others in those industries were either employed part-time, unemployed, or no longer in the labor force. The workers with the highest rates of displacement were those who had held their job for a relatively short time. People with less than three years of tenure made up half of the total 9 million workers who were displaced from 1991 to 1993, but they represent only about a third of all workers. Among industries, the greatest number of displacements occurred in manufacturing, with 1.5 million factory workers being displaced between 1991 and 1993.

According to Jacobson, Lalonde, and Sullivan (1993), the earnings losses of displaced workers should be defined as the difference between workers' actual earnings and what they would have received if they had not been displaced. By this definition the displacement effect on earnings is potentially larger than the earnings change from immediately prior to separation. Their study found that the earnings of workers who had held their job for a long time declined substantially when they were separated.

Jacobson, Lalonde, and Sullivan also found that regional disparities in income were exacerbated with displacement. Displaced workers in the weakest local economies had earned approximately $500 less during the quarter prior to job loss than those in the strongest local economies. The gap increased 50 percent to approximately $750 per quarter after displacement. Moreover, the gap was found to remain the same into the fifth year following job loss.

Job loss was associated with substantial earnings losses even in the strongest labor market. For the period from 1980 to 1986 losses to displaced workers averaged about $9,000 annually or 40 percent of their predisplacement wages. Although these losses did decline slightly over time, they never fully disappeared. During the fifth year following separation, workers' losses still averaged approximately $6,500 annually, or 25 percent of former earnings. "As a result, the average present discounted value of the earnings losses during the period from three years before separation to six years after separation amounts to approximately $50,000" (Jacobson, Lalonde, and Sullivan 1993).

According to the BLS survey (1994), 61 percent of the displaced workers received UI, and of those who received UI, slightly more than 40 percent exhausted their benefits. The proportion of displaced workers who exhausted their benefits was lower in the early 1990s than it was during the 1980s, when the U.S. economy was feeling the effects of back-to-back recessions.

The primary cause of job loss for workers who were displaced between January 1991 and December 1993 was plant or company closing or move (see Table 5). The BLS survey results also reveal that a significant number of workers were laid off because of insufficient work or the abolition of the position or shift. If positions or shifts are abolished because of insufficient work, these figures can be added to the figures for those who are laid off because of insufficient work. It is assumed that these workers can expect to be recalled and will be unemployed for a short period—which may serve as a compelling argument for measures aimed at reducing the incidence of layoffs. However, positions or shifts may also be abolished because of downsizing or technological change. Workers displaced for this reason are

Table 5 Reason for Job Loss

		Percentage of Total Job Loss		
	Number	Plant or Company Closed or Moved	Insufficient Work	Position or Shift Abolished
By Age				
Total	4,473	42.3	29.9	27.7
20–24 years	153	45.5	36.3	18.2
25–54 years	3,540	41.4	30.5	28.1
55–64 years	611	47.2	25.4	27.4
Over 64	169	40.8	29.5	29.7
Men	2,614	40.9	33.0	26.1
20–24 years	77	43.7	42.2	14.1
25–54 years	2,097	40.7	32.8	26.4
55–64 years	383	42.9	31.0	26.0
Over 64	57	na	na	na
Women	1,859	44.3	25.6	30.1
20–24 years	76	47.4	30.2	22.4
25–54 years	1,443	42.3	27.1	30.6
55–64 years	228	54.4	16.2	29.8
Over 64	112	45.5	23.2	30.4
By Race				
White	3,859	41.2	30.2	28.6
Men	2,291	40.2	33.1	26.6
Women	1,568	42.7	25.9	31.4
Black	427	51.4	25.3	23.3
Men	219	50.7	25.2	24.0
Women	209	52.1	25.3	22.6
Hispanic	361	49.2	35.5	15.4
Men	243	44.9	42.0	13.1
Women	118	58.0	21.8	20.2

Source: U.S. Department of Labor, Bureau of Labor Statistics, "Worker Displacement During the Early 1990s," News Release, September 14, 1994.

essentially no different from those displaced because the plant or company closed or moved. These jobs are not going to return, and these workers are likely to become long-term unemployed. They will have to find work in the occupations and industries that replace those that have closed or moved. Thus, the implications of position or shift abolition point to a two-tiered policy approach, one that distinguishes between the short-term and the long-term unemployed.

One remaining question is how many unemployed workers actually receive unemployment insurance. If Feldstein's reservation wage theory applies—that is, if unemployment insurance prolongs periods of unemployment because it enables unemployed workers to maintain a higher reservation wage—it would have to follow that unemployed workers are collecting unemployment insurance benefits. This, however, is not borne out by the data. According to a study by the Center on Budget and Policy Priorities (Nichols and Shapiro 1995), more than 40 percent of unemployed workers received UI prior to the 1980s. Between 1980 and 1994 that figure ranged from a low of 31.5 percent in 1987 and 1988 to a high of 51.1 percent in 1992. From May to December of 1994, only 32.5 percent of unemployed individuals received UI in an average month. At the same time, the number of long-term unemployed increased.

The CPS 1993 annual demographic data showed an even lower figure than the BLS survey data for the percentage of unemployed receiving UI. Only 23.2 percent were receiving UI among the short-term unemployed and 43 percent among the long-term unemployed. One would expect a higher percentage of the long-term unemployed to receive UI because a higher percentage of them are involuntarily unemployed. However, one would also expect a lower percentage of the long-term unemployed to receive UI because they have passed the point of benefit exhaustion; the percentage of long-term unemployed receiving UI suggests that they are most likely receiving extended benefits. However, the question remains: If as many as 52 percent of the short-term unemployed are involuntarily unemployed, why is the rate of UI recipiency less than half of that?

This question might be answered by looking at the proportion of job losers to job leavers, new entrants, and reentrants. When new entrants and reentrants are excluded from the sample, only 37.1 percent of the short-term involuntarily unemployed are receiving UI. When the same categories are excluded, the percentage of long-term unemployed covered by UI actually rises; 55.3 percent of the long-term involuntarily unemployed are receiving UI. Because most states restrict regular UI to no more than 26 weeks, the long-term unemployed must be receiving extended benefits.

Policy Implications

National trends in long-term unemployment suggest the need for unemployment insurance reform to create a system that offers greater opportunity for individuals to match their skills with those demanded by employers. Training would give the unemployed, particularly those who have been displaced from declining industries and occupations, an opportunity to develop marketable skills. Receipt of extended benefits could be tied to participation in a training program. The system would, in addition to providing basic insurance, become a way station for individuals seeking to obtain the skills necessary to become more marketable.

The unemployed population is not homogeneous, and a reformed system must recognize the difference between the short-term and long-term unemployed. Policy must be two-tiered to (1) reduce the incidence of layoff and (2) help the long-term unemployed develop skills that would make them marketable in today's economy.

The First Tier

The UI system could be tightened in such a way that it could discourage layoffs. If no other reforms were made to the UI system and it was maintained as a program of income maintenance, there is no reason why the financing could not be restructured to reduce the incentive to lay off. This would be the easiest reform. In all other countries that have UI systems, benefits are financed through flat-rate payroll taxes or general tax revenues; there is no connection between a firm's behavior and its tax liability (Topel 1990). In the United States UI is financed through an experience-rated payroll tax. A firm that is more likely to lay off its workers pays higher taxes. Experience ratings are premiums levied against an employer on the basis of its history of layoff or the layoff patterns within its industry. An imperfect experience rating of UI taxes, however, is likely to encourage unemployment. Through UI benefits, layoffs generate income for a firm's workers without a corresponding cost for employers, thereby creating an incentive for employers to

compensate workers with UI rather than earnings. Such a situation may tend to increase the incidence and duration of temporary layoff spells. The experience rating could be altered to make it more costly for a firm to lay its workers off. If layoffs impose a higher cost on a firm, it might consider alternatives.

According to Topel (1990), a reduction in the minimum UI tax rate to zero and a dramatic increase in the maximum rates would have two effects. First, unemployment subsidies would be sharply reduced, possibly resulting in a less severe distortion of the industrial mix of employment and production. Second, the primary source of wedge in layoff decisions (the tension between the benefits of maintaining an experienced labor force, even during times of low productivity, and the immediate savings to be had by laying workers off and rehiring them later) would be eliminated. Anderson and Meyer (1993) noted that the "main source of incentives of layoffs on the margin appears to be that the tax rates rise too slowly as benefit payments minus tax payments increase." Even if large corporations and multinational firms found it more cost efficient to pay the higher taxes and continued to lay off workers, smaller firms might find it more difficult.

Another way in which the incentive to lay off could be reduced is through some type of work sharing. For example, instead of laying workers off, employers would reduce the number of hours their employees work and the employees would become eligible for UI benefits as partial compensation for the lost working hours; approximately 60 percent of lost wages would be covered by UI benefits. Work sharing essentially seeks to avert layoffs by redistributing unemployment within a firm. It would be an important component of UI reform in view of the fact that about 30 percent of the unemployed lose their jobs because of insufficient work.

Work sharing has three sets of objectives. Its primary objectives are to act as a countercyclical force in maintaining local, regional, and industrial employment levels during periods of short-term adverse economic conditions and to cushion the effects of permanent labor force reductions. Its second set of objectives involves helping firms. It

enables firms to keep their skilled labor force intact and to avoid costs associated with temporary layoff, particularly the cost of recruiting and training new employees to replace those who would not return after the layoff period. The third set of objectives involves employees. It enables workers to maintain their skill level and work motivation. It protects them from the greater dislocation and uncertainty that would result from a layoff. It distributes the burden of reduced employment activity and permits better income maintenance for those who would otherwise be laid off.

Work sharing has been experimented with in Canada and California. Available data suggest that these programs have prevented significant amounts of job separation and that morale is higher than it would have been with layoffs. Data from Canada suggest that 77 percent of employees who would have been laid off without work sharing maintained attachment to their original employer. Another 5 percent had been hired by a different firm shortly after the work-sharing period. California data indicate that workers participating in work sharing tended to be older than those collecting regular UI and to be employed primarily in manufacturing. Surveys of employers, union leaders, and employees in California indicate that fringe benefits were fully maintained for more than three-quarters of participating employees.

California employees seem to feel that work-sharing programs support good relations among co-workers and work group solidarity. They also considered the programs a fair way to deal with the unemployment problem. Data suggest that productivity was higher for most firms with a work-sharing program than it would have been if those same firms had elected to lay off workers, but net productivity was either neutral or negligibly higher for participating firms. Ninety-three percent of California employers said that they would use work sharing again (Best 1988).

Work sharing imposes additional burdens on firms compared to the layoff alternative. Using administrative data on all work-sharing UI payments in the Canadian program, work sharing was estimated to

be 33 percent more costly than layoffs (Insurance Program Directorate 1993). According to Best (1988), major additional administrative costs for employers arose from having to deal with the UI system to gain approval for using work sharing and to arrange benefit payments. Employers also had to plan work reductions, designate participating employees, negotiate details with unions and employee groups, adjust compensation and record systems, monitor affirmative action impacts, and make overall operational plans. A survey of 291 representative firms in California using work-sharing UI programs during 1978 and 1980 found that, given this added burden, wage and salary costs were 2.1 percent higher than they would have been with layoffs.

Morand (1990) has suggested that work sharing could be key to strengthening and sustaining the UI system during the next half century. Though mindful of studies indicating higher cost than traditional UI, he argues that work sharing could be cheaper to administer for workers, employers, and the system. It does not require job search to be policed, and it keeps people out of employment agencies. It does not lead to denials and appeals. It is the only labor market legislation that is supported by corporations and unions and both ends of the political spectrum. Work sharing may contribute to a more positive image of UI and may encourage and subsidize job preservation. Because most workers are not fired, but are laid off, work sharing thus encourages a rightful expectation that everyone willing to work will continue to do so.

It should be acknowledged that work sharing is not appropriate for all employers. For companies that are closing or moving because of the transitional nature of the economy, work sharing would be of little use. It might even impede necessary labor market adjustment by giving both workers and employers incentive to remain in jobs or industries that do not have prospects for success. For this reason work sharing could not be made compulsory. Rather, it should be implemented on the basis of voluntary contracts. Firms could be induced into entering into such a contract by being offered a lower experience rating.

The Second Tier

The choice of direction for policy regarding long-term unemployment will invariably hinge on assumptions about the motivation of those who are unemployed. If it is assumed that the unemployed, particularly the long-term unemployed, could find work if only they would adjust their reservation wage to current market realities, a solution would simply be reducing UI benefits so that workers had no choice but to accept whatever jobs are available. One way to reduce benefits is to tax them. On the other hand, if it is assumed that individual spells of unemployment are longer today than they were in the past because of technological and other structural changes, and if it is assumed that the system should be designed to help workers find appropriate work at comparable wages, then the system must offer more than temporary relief and measures to get recipients off the UI rolls as fast as possible.

Feldstein (1994) has argued that UI is a disincentive to work and, therefore, if it cannot be eliminated altogether, it should be subject to higher taxes so that the UI net replacement rate (the percent of normal wages after taxes that are replaced by UI benefits) is lower than the current rate.[2] Although UI benefits are subject to federal taxation, they are not subject to Social Security and state and local taxes. As a result, an individual could receive an amount equivalent to a net replacement rate of more than 60 percent, even though the UI gross replacement rate (the percent of normal wages before taxes that is replaced by UI) may only be 50 percent. Making UI benefits subject to more taxation will make unemployment less attractive (Feldstein 1994).

Solon (1985) found that after the introduction in 1978 of taxes on UI benefits for higher-income claimants (those in families earning more than $20,000), there was a reduction in the mean duration of UI from 10.8 weeks in 1978 to 8.4 weeks in 1979. But even if the introduction of benefit taxation can affect unemployment duration and be an incentive to work, such an effect would not necessarily make benefit taxation a good policy, because it would make UI less effective in its objective of insuring job losers against income

reductions (Solon 1985). He also argues that we cannot assume duration was reduced because of benefit taxation and not because of the availability of more jobs commensurate with workers' skill levels in 1979 than in 1978.

One problem with taxing UI benefits is the underlying assumption that jobs exist. Certainly, if jobs do not exist, taxing benefits will have little impact other than reducing the subsistence level of the unemployed. Even if jobs exist, they may not be appropriate matches between the skills of unemployed workers and the skills demanded by employers. Any number of jobs will go unfilled because of skill deficiencies. Moreover, is there a social benefit to be derived from forcing workers to take jobs for which they are clearly overqualified? As a higher percentage of the long-term unemployed are in professional and specialty occupations, it must be assumed that their wages would far exceed the benefits they receive from the UI system. Why would these people prefer to be on UI at a fraction of their previous wages? Is it possible that the jobs that exist do not require the skills, experience, and credentials that they have to offer?

The idea that individuals have a reservation wage is clearly plausible; the idea that UI necessarily inflates it is questionable. A serious challenge to the theory of reservation wages, or at least to the idea that UI artificially inflates reservation wages, is the large percentage of short-term and long-term unemployed who do not receive UI. For UI to boost reservation wages, the unemployed would have to collect benefits. If their reservation wages are high in the absence of UI, then other forces are clearly at work and taxing benefits would have a questionable impact. Moreover, the CPS demographic data indicate that most of the long-term unemployed are older, white, married males, presumed to be family heads and primary earners. It is difficult to believe that there would be any incentive for them to remain on UI at a fraction of their previous wages.

As Topel (1993) has pointed out, the principal factor behind rising joblessness is that spells of nonemployment have become longer. In contrast, the frequency of short spells of less than 15 weeks has remained fairly constant. Moreover, the data suggest that

unemployment and nonparticipation in the labor force are concentrated among persons with few currently marketable skills. An alternative to the interpretation of a lack of skills is that persons who are doing poorly today have seen their skills become obsolete during their period of idleness.

A UI system that could be of greatest assistance to the long-term unemployed would not assume UI to be the source of unemployment. It would continue to uphold the fundamental premise of the program as it was originally designed—that unemployment is the result of forces beyond the individual's control. Instead of taxing benefits, which is essentially punitive, the system should offer the unemployed the opportunity to participate in training. Most people who are laid off find reemployment within 27 weeks. If a considerable proportion of those who do find reemployment either work in different occupations at reduced wages or work as contingent workers, then the system is not helping them to find the appropriate match. If there is a gap in terms of skills, the system might need to be reformed to help workers develop marketable skills. The system can be reformed to do more to help the unemployed find reemployment that best matches their skills with those required by employers or to help the unemployed obtain the skills necessary to find employment that will enable them to maintain their standard of living.

The continued receipt of UI after 26 weeks could be made contingent upon the willingness of the unemployed to engage in training. By waiting until then to impose such a requirement, the system gives the unemployed the opportunity to try to find work on their own.

The changing nature of not only the domestic economy but also the global economy raises the question of whether an unemployment insurance system can do more for displaced workers than simply providing them with income maintenance. Congress has sought to address this issue by mandating through the Unemployment Compensation Amendments of 1993 that new UI claimants, upon filing, be profiled according to demographic characteristics and work history. Those identified as most likely to exhaust regular UI are targeted for job search assistance. Because the program has not been fully implemented, it is too soon to measure its value.

In the 1980s some dislocated workers received job search assistance through demonstration projects conducted in some states. They found work from one-half week to four weeks quicker than those who did not receive job search assistance. The average reduction in most states was about one week. There was no negative effect on weekly wages (U.S. Department of Labor 1995a); those who received assistance found a new job at wages similar to the wages at their old job. Early intervention efforts, such as these demonstration projects and the 1993 amendments, offer some assistance to some of the UI population; they represent a positive first step. However, reducing unemployment by an average of one week does not address the problems of the long-term unemployed.

There is a hodgepodge of federal government training programs targeted toward different groups of people, but not specifically connected to UI. In an effort to remedy this disjointed approach Congress is considering the Workforce Development Act, which would consolidate federal employment training programs and would create a new funding process and structure. Although such consolidation might be a helpful reform, the resulting training programs would still remain separate and distinct from the UI system. The issue is whether it is possible for the UI system to assist displaced workers in obtaining reemployment early in their unemployment.

A worker profiling program would work in connection with UI to identify workers who might become long-term unemployed. The federal government started using such a program, the Worker Profiling and Reemployment Service System (U.S. Department of Labor 1994), in conjunction with the 1983 amendments. An individual's first UI payment triggers the creation of a profile, which includes information on recall status, union affiliation, education, job tenure, change in employment in previous industries, change in employment in previous occupations, and local unemployment rate. On the basis of a statistical model, the individual would then be assigned a probability of long-term unemployment. Individuals identified as likely to exhaust UI benefits would be required to engage in a training program before the initial 26 weeks of benefits are over. Training programs and services might vary from state to state, but all would follow a general pattern.

Identified claimants would be immediately referred to service providers or placed in a selection pool from which a referral may later be made. Services would begin with an orientation session advising claimants on the availability and benefit of reemployment assessment, and if appropriate, an individual assessment of the claimant's needs would be made. An individual service plan, viewed as a compact between claimant and service provider, would be devised. The claimant would be referred to reemployment services tailored to his or her needs. Services generally include workshops on writing resumes and interviewing and further assessment to identify other needs so that the displaced worker can become more marketable. Claimants would be required to participate in services to which they are referred as a condition for further receipt of UI benefits.

It seems that with the addition to the worker profiling system of a serious training component, the UI system could be transformed from an insurance system into a powerful mechanism for reemploying dislocated workers. In the New Jersey Unemployment Insurance Reemployment Demonstration Project (NJIRDP), which served as the experimental basis for the larger profiling policy, three treatments were employed: job search assistance (JSA) only, JSA and training or relocation assistance, and JSA and cash bonuses for early reemployment. Each treatment reduced the amount of UI benefits received in the initial year and in subsequent years. Although a relatively small number of claimants in the JSA and training or relocation treatment received on-the-job training, those who did had significantly higher earnings than did the assessed JSA-only claimants in all quarters following the claim date. On-the-job training had a substantial and statistically significant impact on earnings and weeks worked throughout the six-year follow-up. Workers who received training earned $9,000 to $15,000 more per year than workers who received only job search assistance and found reemployment 12 to 18 weeks earlier.

Though it is not clear that retraining would assist all of the long-term unemployed, there is reason to believe that it could benefit a significant number. Almost two-thirds of the long-term unemployed have a twelfth-grade education or less. Industries that are expected to grow in the next decade will require a higher degree of skills than the

blue-collar manufacturing and service industries from which many long-term unemployed workers have been displaced.

According to the Bureau of Labor Statistics (1993), the U.S. labor force is expected to increase from 127 to 151 million between 1992 and 2005. Slightly more than 51 million are expected to enter the labor force, with about 28 million replacing workers who leave due to death, retirement, and other reasons. Almost all job growth is expected to be in the service industries. Approximately a third of all jobs created are expected to be in health, business, and social services. The fastest growing occupations will be professional specialty, managerial, and technical—those requiring the most education. The fastest growing major occupational group requiring little education will be service. The seven fastest-growing occupations are health and computer related—positions requiring higher skill levels. Projections of occupational growth are shown in Table A4 in the appendix. These projections tend to reinforce the current trend toward a "two-tiered economy": low-skilled service occupations in the low-wage labor market and high-skilled occupations in the high-wage labor market. What clearly stands out, however, is that the fastest-growing occupations will demand a high level of skills from their workers.

There has not been a great deal of experimentation in the United States with alternative forms of UI compensation. Federal law allows for the continued receipt of benefits in some cases if claimants are enrolled in state-approved programs. Existing information on the effectiveness of training programs is mixed. The Job Training Partnership Act (JTPA), passed in 1982, provides job training and job search services for disadvantaged and dislocated workers, but it does not provide public service employment and cash stipends for workers receiving training. As of 1988, JTPA was providing about $200 million annually at the state and local level for workers permanently displaced from their jobs, but funds are more generally used to provide classroom training, on-the-job training, and job search assistance (Advisory Council on Unemployment Compensation 1995).

In 1992 JTPA enrolled 125,000 out-of-school youths ranging in age from 16 to 21. Slightly more than half were high school dropouts,

and most of the participants came from economically disadvantaged backgrounds. The average length of time in the program was five months, with an average cost of $2,800 per enrollee. Findings were discouraging. The program, including classroom training, job search assistance, or a mix of less intensive services, produced no statistically significant positive effects for out-of-school, male or female youths over a two-and-a-half-year period. Moreover, there was no reductions in either crime or welfare receipt among the participants (U.S. Department of Labor 1995a).

The results from Job Corps, the most intensive federal training program provided to any civilian population, are far more encouraging. This residential program provides basic education, vocational skill training, and a wide range of supportive services. Upon completion of the program, job placement services are provided. As of 1993, Job Corps was enrolling about 62,000 new youths and making approximately $570 million in total outlays. The full Job Corps training program usually takes about a year to complete, but a "substantial minority" (U.S. Department of Labor 1995a) drop out or are dismissed within the first three months because of the difficulty of training and the strict code of conduct enforced in Job Corps centers. Job Corps participants tend to be even more disadvantaged than the out-of-school youth in JTPA. More than 80 percent are high school dropouts and three-quarters have never held a job.

During the four years after graduation, Job Corps enrollees earned an average of $1,300 more per year and were employed over three weeks more per year than members of a control group. More than 25 percent of Job Corps enrollees received a high school diploma or a GED, while only 5 percent of the control group did. By the end of the follow-up period, enrollees were also twice as likely to attend college. They required less government assistance, receiving on average two fewer weeks of welfare benefits and one fewer week of UI each year. Although Job Corps participation had no effect on the overall arrest rate, it appeared to reduce the incidence of felony crime among participants. Because of the intensive nature of the program, it had high up-front costs, but the resulting benefits were estimated to substantially exceed the costs. Lifetime benefits to society from Job Corps

training were estimated to be about 45 percent greater than program costs (U.S. Department of Labor 1995a).

In a review of different programs, the U.S. Department of Labor (1995a) found short-term training programs to be of little benefit and long-term programs, lasting up to one year, to be more effective. Moreover, those who enrolled in a community college program also tended to do much better.

Further lessons can be drawn from the Canadian experience. As part of its UI Developmental Uses program, Canada experimented with training programs and found some beneficial results (Park, Riddel, and Power 1993). To study the effects of training, the program directorate looked at six categories of workers: feepayer, job development, job entry, skills shortages, disability insurance recipient (DIR), and nontrainees (UI only).

Feepayer workers were individuals who were paying on their own for training for approved courses restricted to designated skills shortages and language training. To qualify, participants had to have been out of school for more than two years. The courses had to meet at least 25 weeks, but could not exceed 52 weeks. Although participants paid for the courses, they drew UI while enrolled. Job development workers were long-term unemployed, defined as having been unemployed for at least 24 weeks during the previous 30. Most were women. Job entry workers were women reentering the workforce after an absence of at least three years (job reentry) or youths who were no longer required to attend school and had little labor market experience, defined as having been out of school for a minimum of three years and having been unemployed for at least 26 out of 52 weeks (job entry). Priority was given to high school dropouts. Full-time courses could not be longer than 52 weeks, and part-time courses could not be longer than 1,820 hours. The skills shortages program workers were those who were "not job ready" and who did not meet the criteria for other programs, but counselors felt they could benefit from training. Training could last up to three years, but only participants with at least five years in the labor force could train for more than a year. DIR workers took training that did not interfere with their job search (or they did

not inform authorities that they were involved in training while on UI). (See Table A5 in the appendix for a summary of program results.)

Overall, the study found that participants in the feepayer and skills shortages programs were no more likely to become reemployed than UI-only claimants. DIR, job development, and job entry trainees were generally less likely than UI-only claimants to obtain a job after UI and/or training. Trainees, however, did require substantially less time—11 to 17 weeks less, depending on the training program—than UI-only claimants to find a job. A modest rise in the incidence of welfare receipt was observed for job entry and job development participants (Park, Riddel, and Power 1993).

Although training may be a short-term solution in that it helps workers find jobs sooner, it is not clear that it offers higher income in the long term. Those who receive no training, once reemployed, may catch up. Beyond their high costs, the greatest problem with government training programs is that administrators and program designers assume that once workers have gone through a program, they will be ready to work in new industries. Government training programs do not necessarily take into account the skill demands of employers.

Assuming that the long-term unemployed would find reemployment faster if they had the appropriate skills, encouraging the private sector to offer on-the-job training may be a partial remedy. Firms that have specific skill requirements ought to be encouraged to hire and train unemployed workers in a manner that meets the firms' needs. Funds that are currently used for extended benefits could be used as tax credits or vouchers to finance such a program. By contributing to financing in-house job training, a more perfect experience rating would serve the dual purpose of helping to reduce the number of layoffs and assisting the long-term unemployed.

The employment bonus program trials in Illinois are examples of a type of bonus program that might help reemployment. In an effort to encourage the unemployed to search more intensively for a job, the state offered workers $500 bonuses to be paid upon reemployment. Employee trials showed that workers who were offered a bonus found reemployment faster than those who were not. Woodbury and

Spiegelman (1987) found that when bonuses were paid (they were paid to 4,186 UI claimants), the state's regular benefits paid to the randomly selected treatment group decreased by an average of $158, and the average number of weeks of insured unemployment decreased by more than one week over the full benefit year compared with the randomly selected control group. In other trials, bonuses were offered to firms to encourage them to hire workers. The employer trials showed that workers found reemployment faster when employers were offered bonuses (Woodbury and Spiegelman 1987). UI might be linked to training through a bonus program modeled after those that offer payments to employers.

The data on these experiments are inconclusive. In a comprehensive review of these experiments, Meyer (1995) suggested that cost-benefit analyses indicate that bonus experiments usually lead to small net losses for the UI program and do not produce any ultimate, overall societal gains. For instance, an incentive to find a job more quickly may induce a claimant to take a less desirable job. Although results of the program trials did not reveal any adverse impact on earnings, it is not clear whether these results would apply to a permanent program. Meyer cites three sources of this uncertainty. First, individuals who are encouraged to go back to work early may gain employment at the expense of others who are unable to get jobs. Second, with a permanent program a different fraction of eligible claimants might apply for bonuses, thereby causing a change in the costs of the bonus offer. Third, reemployment bonuses make filing for UI much more rewarding, as claimants become eligible for a larger payment if they file and find a job soon.

According to Meyer, the permanent adoption of a reemployment bonus could actually have the unintended effects of increasing the number of short unemployment spells and the number of UI claimants. Although bonus experiments show that economic incentives affect the speed with which people leave the UI rolls, they do not necessarily demonstrate the desirability of a permanent reemployment bonus program. Simple cost-benefit analyses suggest that societal net benefits may be positive only 50 percent of the time. Reemployment bonuses make filing for UI more valuable since claimants become eligible for a large payment if they file for UI and soon after find a job. The

permanent adoption of a reemployment bonus could have important unintended effects; it is not clear how such a bonus program would impact the size of the claimant population.

Davidson and Woodbury (1993) noted that because the bonus program makes it easier to fill vacancies, it might affect the job separation rate. It could make firms more prone to terminate workers for cause and less prone to create conditions that would lower the probability of voluntary quitting. Termination and voluntary quits create vacancies that are costly to fill; because bonuses reduce these costs, those types of separation may rise as a result of the bonuses. Davidson and Woodbury estimated that the bonus program would not have a displacement effect on workers who were eligible for UI but were not offered bonuses, although there would be some displacement of workers who were not eligible for UI. They found that the Illinois bonus program had virtually no effect on earnings of workers who were offered a bonus.

An employer bonus program could be linked to training. The key difference from the Illinois model would be that instead of offering bonuses to employers simply for hiring workers, money would be offered to employers to invest in the development of human capital. Since workers hired would not be receiving extended UI benefits, those benefits would be used to finance vouchers for employers to provide training or as a subsidy for wages paid to workers during training. The program could be structured along the lines of a voucher system in which vouchers would be offered to employers who would hire and train workers.

Another option is to offer vouchers to the unemployed to pay for a training program of their choice; they would be required to participate in order to receive extended benefits. Another possibility for structuring such a program is to offer vouchers to employers who will hire and train workers, and then use the extended benefits payments to subsidize wages that workers receive from their new employers during the training phase. This type of program presumes that once these workers have been retrained for their new employers, their employers would then pay them the prevailing market wage. The idea bears some similarity to several welfare proposals that would time limit benefits and then demand work.

Conclusion

Because the unemployed population is not homogeneous, a two-tiered policy approach is essential. The first tier would seek to tighten the system by adopting measures such as a more perfect experience rating and work sharing in order to reduce the incidence of layoff. The second tier would assist those who may be facing the prospect of long-term unemployment and need some additional training or retraining.

UI reform should create a system that is flexible. Workers should be able to choose the type of training they will engage in. It should also provide motivation for the workers to engage in training. Tying the receipt of extended benefits to a willingness to participate in training is one means to accomplish this. The system would have to pay for the training.

To be suitable to the needs of a changing economy, the UI system must do more than merely provide income maintenance on the outdated assumption that jobs that are lost will simply return with changes in the normal business cycle. The system has to recognize that unemployment is not the homogeneous condition it was assumed to be. Increasingly, there is a distinction between the short-term unemployed and long-term unemployed, and the ranks of the long-term unemployed are growing. Reform of UI should shift the emphasis from temporary assistance in times of economic downturns to greater efficiency in facilitating reemployment. Moreover, by seeking a match between jobs and workers and appropriate replacement wages for displaced workers, UI reform can enhance a core value of American society: work.

Appendix

Table A1 Labor Force and Unemployment

Year	Civilian Labor Force (thousands)	Unemployed (thousands)	Long-Term Unemployed (thousands)	Unemployment Rate	Long-Term Unemployment Rate
1949	61,288	3,637	263	5.9	7.2
1950	62,206	3,288	357	5.2	10.9
1951	62,016	2,055	137	3.3	6.7
1952	62,133	1,883	84	3.0	4.5
1953	63,013	1,834	78	2.9	4.3
1954	63,642	3,532	317	5.5	9.0
1955	65,022	2,852	336	4.4	11.8
1956	66,549	2,750	232	4.1	8.4
1957	66,930	2,859	239	4.3	8.4
1958	67,638	4,602	667	6.8	14.5
1959	68,370	3,740	571	5.5	15.3
1960	69,630	3,852	454	5.5	11.8
1961	70,460	4,714	804	6.7	17.1
1962	70,613	3,911	585	5.5	15.0
1963	71,832	4,070	553	5.7	13.6
1964	73,091	3,786	482	5.2	12.7
1965	74,454	3,366	351	4.5	10.4
1966	75,770	2,875	239	3.8	8.3
1967	77,347	2,975	177	3.8	6.0
1968	78,737	2,817	156	3.6	5.5
1969	80,734	2,832	133	3.5	4.7
1970	82,771	4,093	235	4.9	5.7
1971	84,383	5,016	519	5.9	10.4
1972	87,035	4,882	566	5.6	11.6
1973	89,429	4,365	343	4.9	7.9
1974	91,950	5,156	381	5.6	7.4
1975	93,775	7,929	1,203	8.5	15.2
1976	96,158	7,406	1,348	7.7	18.2
1977	99,008	6,991	1,028	7.1	14.7
1978	102,250	6,202	648	6.1	10.5
1979	104,961	6,137	535	5.8	8.7
1980	106,940	7,637	820	7.1	10.7
1981	108,670	8,273	1,162	7.6	14.1
1982	110,204	10,678	1,776	9.7	16.6
1983	111,551	10,717	2,559	9.6	23.9
1984	113,544	8,539	1,634	7.5	19.1
1985	115,462	8,312	1,280	7.2	15.4
1986	117,834	8,237	1,187	7.0	14.4
1987	119,865	7,425	1,040	6.2	14.0
1988	121,669	6,701	809	5.5	12.1
1989	123,870	6,528	646	5.3	9.9
1990	124,788	6,874	695	5.5	10.1
1991	125,303	8,426	1,098	6.7	13.0
1992	126,982	9,384	1,930	7.4	20.6
1993	128,040	8,734	1,778	6.8	20.4
1994	131,056	7,996	1,623	6.1	20.3
1995	132,229	7,404	1,278	5.6	17.3

Source: Council of Economic Advisers, *Economic Report of the President* (1996).

Table A2 Industry and Occupation Aggregations from 1993 CPS Data

See Table 3, Long-Term and Short-Term Unemployed by Industry and Occupation, 1993. The author aggregated industry and occupation categories because of the small sample size of the data. The standard classification codes appear indented under the author's industry and occupation categories.

Industry

Blue-collar service
- Transportation, communication, and other public utilities

Blue-collar manufacturing
- Mining
- Construction
- Manufacturing

Sales and trade
- Wholesale trade
- Retail trade

Professional specialty
- Professional and related services

Services
- Business and repair services
- Personal services, including private household services
- Entertainment and recreation services

Finance, insurance, and real estate

Public administration

Agriculture
- Agriculture, forestry, and fisheries

Not in universe

Occupation

Blue-collar service
- Transportation and material moving equipment occupations
- Handlers, equipment cleaners, helpers, and laborers
- Private household occupations
- Protective service occupations
- Service occupations, except protective and household

Blue-collar manufacturing
- Precision production, craft, and repair occupations
- Machine operators, assemblers, and inspectors

Technical, sales, and administrative support
- Technicians and related support occupations
- Sales occupations
- Administrative support occupations, including clerical

Managerial and professional specialty
- Executive, administrative, and managerial occupations
- Professional specialty occupations

Armed forces
- Armed forces last job, currently unemployed

Not in universe

Table A3 Employed Persons by Occupation and Industry as a Percentage of Total Employment (TE) and of Labor Force (LF)

	1960		1970		1980		1990	
	TE	LF	TE	LF	TE	LF	TE	LF
Occupation								
Executive, Manager	8.4	7.8	8.3	7.7	10.4	9.6	12.3	11.3
Professional	11.2	10.3	14.8	13.7	12.3	11.3	14.2	13.2
Services	11.1	10.3	12.8	11.8	12.9	11.9	13.2	12.2
Technical, sales, administrative support	21.6	20.0	25.1	23.2	13.1	12.0	15.5	14.3
Administrative support, including clerical					17.3	15.9	16.3	15.0
Precision, production, craft, and repair	13.5	12.5	13.9	12.8	12.9	11.9	11.3	10.5
Operators, fabricators, and laborers	23.2	21.7	22.1	20.4	18.3	16.8	14.9	13.0
Farming, forestry, and fisheries	6.1	5.7	3.1	2.9	2.9	2.7	2.5	2.3
Not reported	4.9	4.5	0.0	0.0	0.0	0.0	0.0	0.0
Industry								
Professional and related services	12.5	11.6	18.5	17.1	20.3	18.7	23.3	21.6
Services	8.5	7.8	7.7	7.1	8.4	7.7	9.4	8.7
Finance, insurance, and real estate	4.2	3.9	5.0	4.6	6.0	5.6	6.9	6.4
Wholesale trade	3.4	3.2	4.1	3.8	4.3	4.0	4.4	4.1
Retail trade	14.8	13.7	16.0	14.8	16.1	14.8	16.8	15.6
Manufacturing	27.1	25.1	25.9	23.9	22.4	20.7	17.7	16.3
Construction	5.9	5.5	6.0	5.5	5.9	5.4	6.2	5.8
Transportation, communication, other public utilities	6.9	6.4	6.8	6.3	7.3	6.7	7.1	6.6
Mining	1.0	0.9	0.8	0.8	1.1	0.9	0.6	0.5
Agriculture, forestry, and fisheries	6.7	6.2	3.7	3.4	3.0	2.7	2.7	2.5
Public administration	5.0	4.6	5.5	5.1	5.3	4.9	4.8	4.4
Not reported	4.0	3.7	0.0	0.0	0.0	0.0	0.0	0.0

Source: Author's calculations based on data in U.S. Department of Commerce, Bureau of the Census, *United States Summary: General Social and Economic Characteristics*, PC(1)-1C 1961, PC(1)-C1 1972, PC80-1-C1 1983, and 1990 CP-2-1 (1993).

Table A4 Employment Projections by Occupation

Occupation	1992	Employment 2005 (thousands)			Percent Change 1992–2005		
		Low	Moderate	High	Low	Moderate	High
All occupations	129,099	139,007	147,482	154,430	14.8	21.8	27.5
Fastest-growing occupations							
Home health aids	347	794	827	835	128.7	138.1	140.6
Human service workers	189	429	445	451	127.6	135.9	139.2
Personal and home care aids	127	283	293	296	122.0	129.8	132.0
Computer engineers and scientists	211	409	447	485	93.9	111.9	129.2
Systems analysts	455	891	956	1,001	95.7	110.1	120.0
Physical and corrective therapy assistants and aids	61	113	118	119	84.6	92.7	95.1
Physical therapists	90	163	170	173	80.2	88.0	91.4
Paralegals	95	166	176	180	75.8	86.1	89.8
Occupational therapy assistants and aids	12	20	21	21	70.5	78.1	80.1
Electronic pagination systems workers	18	29	32	33	65.1	77.9	84.0
Teachers, special education	358	594	625	648	65.9	74.4	81.0
Medical assistants	181	296	308	313	63.5	70.5	73.0
Detectives, except public	59	94	100	104	60.1	70.2	76.8
Correction officers	282	452	479	503	60.0	69.9	78.1
Child care workers	684	1,100	1,135	1,183	60.6	65.8	72.8
Travel agents	115	167	191	196	45.2	65.7	69.9
Radiologic technologists and technicians	162	252	264	267	55.4	62.7	64.6
Nursery (farm) workers	72	110	116	123	53.1	62.0	71.3
Medical records technicians	76	118	123	125	54.4	61.5	63.6
Operations research analysts	45	67	72	75	50.1	61.4	68.0
Occupational therapists	40	61	64	65	52.9	59.6	62.5
Subway and streetcar operators	22	33	35	37	48.1	57.2	64.9
Legal secretaries	280	415	439	447	48.3	57.1	59.9
Teachers, preschool and kindergarten	434	646	669	682	48.9	54.3	57.2

(Continued)

Table A4 (Continued)

Occupation	1992	Employment 2005 (thousands) Low	Moderate	High	Percent Change 1992–2005 Low	Moderate	High
Manicurists	35	54	55	56	51.2	54.1	58.3
EEG technologists	6	9	10	10	46.6	53.8	55.4
Producers, directors, actors, and entertainers	129	190	198	205	47.0	53.5	58.7
Speech-language pathologists and audiologists	73	105	110	113	44.6	51.3	55.7
Flight attendants	93	121	140	144	30.3	51.0	55.5
Guards	803	1,138	1,211	1,255	41.7	50.8	56.2
Nuclear medicine technologists	12	17	18	18	43.1	50.1	51.6
Insurance adjusters, examiners, and investigators	147	205	220	220	39.3	49.1	49.5
Respiratory therapists	74	104	109	110	41.4	48.3	49.9
Psychologists	143	204	212	222	42.1	48.0	54.7
Fastest-declining occupations							
Frame wirers, central office	11	2	3	3	–77.4	–75.3	–74.7
Signal or track switch maintainers	3	1	1	1	–76.6	–74.6	–72.9
Peripheral EDP equipment operators	30	11	12	12	–62.6	–60.2	–59.0
Directory assistance operators	27	12	13	14	–54.9	–50.6	–49.4
Central office operators	48	22	24	24	–54.7	–50.3	–49.1
Station installers and repairers, telephone	40	18	20	20	–54.7	–50.3	–49.1
Portable machine cutters	11	5	6	6	–48.3	–40.1	–39.4
Computer operators, except peripheral equipment	266	151	161	168	–43.2	–40.1	–39.4
Shoe sewing machine operators and tenders	16	9	10	10	–46.3	–38.4	–35.8
Central office and PBX installers and repairers	70	41	45	46	–41.3	–35.6	–34.1
Child care workers, private household	350	220	227	242	–37.1	–35.1	–31.0
Job printers	15	9	10	10	–39.4	–35.0	–33.2
Roustabouts	33	20	22	32	–38.4	–33.2	– 2.0

(Continued)

Table A4 (Continued)

Occupation	1992	Employment 2005 (thousands)			Percent Change 1992–2005		
		Low	Moderate	High	Low	Moderate	High
Separating and still machine operators and tenders	21	13	14	15	–37.0	–35.1	31.0
Cleaners and servants, private household	483	316	326	347	–34.6	–32.5	–28.2
Coil winders, tapers, and finishers	20	12	14	16	–41.2	–32.4	–22.1
Billing, posting, and calculating machine operators	93	62	66	68	–33.6	–29.5	–27.0
Sewing machine operators, garment	556	338	393	396	–39.1	–29.2	–28.7
Compositors and typesetters, precision	11	7	8	8	–30.7	–26.5	–23.3
Data entry keyers, composing	16	11	12	12	–31.7	–26.4	–23.8
Motion picture projectionists	9	7	7	7	–29.3	–25.8	–24.0
Telephone and cable TV line installers and repairers	165	117	125	134	–29.4	–24.4	–18.7
Cutting and slicing machine setters	94	68	73	76	–28.1	–22.6	–19.5
Watchmakers	9	7	7	8	–26.5	–22.6	–18.4
Tire building machine operators	14	10	11	12	–29.4	–22.3	–19.0
Packaging and filling machine operators and tenders	319	232	248	257	–27.1	–22.3	–19.4
Head sawyers and sewing machine operators and tenders	59	44	46	53	–25.7	–22.3	–10.3
Switchboard operators	239	177	188	194	–25.9	–21.3	–18.8
Farmers	1,088	831	857	914	–23.7	–21.2	–16.0
Machine forming operators and tenders, metal and plastic	155	112	123	133	–27.8	–20.8	–14.3
Cement and gluing machine operators and tenders	35	26	28	30	–25.7	–20.2	–12.7

Source: U.S. Bureau of the Census, *Statistical Abstract of the United States: 1994* (1994), p. 411.

Table A5 Comparison of Canadian Experimental Training Programs

	Feepayer	Job Development	Job Entry	Skills Shortages	Disability Insurance Recipient	UI-only
Pre-UI weekly earnings ($)	425	361	268	377	427	477
Post-UI weekly earnings ($)	448	383	324	480	420	428
Placement rate (%)	67	58	61	75	61	NA
Pre-UI average annual earnings ($)	16,375	12,833	8,016	18,775	13,877	18,082
Post-UI average annual earnings ($)	18,719	13,958	12,113	24,245	15,299	19,981
Average age (years)	32	33	31	28	31	35
Education (years)	13	12	12	12	12	10
Average duration of training (weeks)	34	31	27	19	19	0

Source: Norman Park, W. Craig Riddel, and Robert Power, *An Evaluation of UI-Sponsored Training* (Insurance Program Directorate, Government of Canada, August 1993).

Notes

1. For a more expansive summary of the literature review, see Oren M. Levin-Waldman, *Reforming Unemployment Insurance: Toward Greater Employment*, Working Paper No. 152, The Jerome Levy Economics Institute of Bard College, December 1995.

2. In the 1986 tax reforms all UI benefits became subject to federal taxation. It is the responsibility of the recipient to pay these taxes; they are not withheld from benefit payments.

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About the Author

Oren M. Levin-Waldman is a resident scholar at The Jerome Levy Economics Institute of Bard College. He received a B.A. in history, an M.A. in urban studies, and a Ph.D. in political science from Temple University. Levin-Waldman's research projects focus on transforming the welfare and unemployment insurance systems in order to achieve greater efficiency, equity, and effectiveness in service delivery. He is also continuing research started in his book *Plant Closure, Regulation, and Liberalism: The Limits to Liberal Public Philosophy* by looking at the problem of worker displacement due to plant closings. In particular, he is examining how federal plant closing law is protecting workers and facilitating labor market adjustments. If the legislation represents an incremental step in a process leading to a comprehensive national employment policy, it will also have repercussions with respect to the overhaul of the current unemployment insurance system. Levin-Waldman's book *Reconceiving Liberalism: Dilemmas of Contemporary Liberal Public Policy* is to be published by the University of Pittsburgh Press. He is the author of *Public Policy Brief* No. 21, *The Consolidated Assistance Program.*